



27 July 2018

Dr Peter Boxall
Chair
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop, NSW1240

Dear Dr Boxall

Response to IPART's Draft Technical Paper, "Modelling Local Infrastructure Contributions in a Present Value Framework - July 2018"

Thank you for the opportunity to provide feedback on the abovementioned IPART draft technical paper issued in July 2018. As requested, The Hills Shire Council ("Council") limits its response to focus on the two changes made since the last paper issued in February 2016:

1. Adopting a trailing average of sample values in the cost of debt calculation so as to be consistent with IPART's current Weighted Average Cost of Capital method (WACC):
 - 10-year trailing average to calculate the historic cost of debt
 - 5-year trailing average for the calculation of the current cost of debt
2. Changing the recommended escalation for contribution rates from a factor equivalent to the discount rate to the midpoint of the Reserve Bank of Australia's target range for inflation of 2.5%

Adopting a trailing Average of Sample of values

Council appreciates IPART's intention to align the cost of debt calculation for local infrastructure contribution models to its WACC method. Council supports the proposed change as it is only an enhancement to the existing methodology. Council agrees that the change will increase stability in the cost of debt calculation which is more in line with long term debt arrangements.

One administrative note that Council would like to highlight is that it finds the explanation of trailing average calculations rather brief in the draft technical paper. While Council appreciates that the methodology is detailed in the WACC report (as referenced in the draft technical paper), the WACC report was directed mainly at regulated businesses and included detail that is not relevant to local infrastructure models. Council would appreciate if, in addition to referencing the source report, IPART could also provide more detail on the proposed changes such as calculation examples and key inputs into the calculations including data periods (e.g. 40-day or two month

observation windows etc.) in the body of the technical paper for easy reference. This will also help Council see the proposed methodology in the context of local infrastructure modellings more clearly and readily.

Escalating contribution rates at 2.5%

Council welcomes the change of escalation factor for contribution rates to 2.5%. This revised recommendation is consistent with Council's current practice and preference for the reasons explained in its response to IPART's assessment (Recommendation 10) for Development Contributions Plan No.15 - Box Hill Precinct in December 2015.

IPART has noted the key reason for this change was to bring the escalation factor below the discount rate so as to incentivise Council's adherence to the development timetable in the contribution plan. As noted by IPART, there are a range of factors influencing a council's decisions. Council notes that it continues to pursue orderly development of each Section 7.11 precinct and the change in recommended escalation rates will have minimal bearing on its decision of investment timing. This change is supported by Council however as it will allow Council to repay its borrowings sooner than the last recommended methodology as highlighted in Council's previous response mentioned above.

Yours faithfully



Chandi Saba
CHIEF FINANCIAL OFFICER